FOREWORD BY
GERALDINE WEISS

DIVIDENDS STILL DON'T LIE

THE TRUTH ABOUT INVESTING IN BLUE CHIP STOCKS AND WINNING IN THE STOCK MARKET

KELLEY WRIGHT
MANAGING EDITOR, *INVESTMENT QUALITY TRENDS*

Praise for the original *Dividends Don't Lie* (1988)

''Geraldine Weiss, the doyenne of dividend enhancement, has popularized the theory that there is an inescapable relationship between the corporation's ability to pay consistent dividends over time and its price performance in the stock market. Her respected newsletter, *Investment Quality Trends*, employs this theoretical basis, and her classic *Dividends Don't Lie* is a primer on her theory.''

—*Library Journal*

''Geraldine Weiss' dividend yield investment model espoused in *Dividends Don't Lie* is basically reiterated and confirmed. This relatively simple, straightforward strategy, limited here to 350 select blue-chip stocks, has regularly outperformed the market (as documented by Mark Hulbert, who tracks investment advisers in his *Hulbert Financial Digest*).''

—*Booklist*

''In their technically detailed, conservative analysis, the authors recommend careful study of high grade issues with steady dividend-increase records. Investors should buy shares when the stock is undervalued in relation to dividend yield, then sell (reinvesting elsewhere) when a bullish trend drives the share price up to an overvalue level.''

—*Publishers Weekly*

''The first dividend accrues to the reader when you buy *Dividends Don't Lie.* It is a superb value.''

—Bob Gross, Publisher,
The Professional Investor

''A lucid and powerful presentation of one of the best documented investment theories.''

—Peter Brimelow,
Senior Editor, *Forbes*

''Finally, an investment book that deals with values! Values ultimately rule the market and a knowledge of values is always based first and last on dividends. This book should be '''the bible of dividends.'''

—Richard Russell,
Publisher of *Dow Theory Letters*

''I have a lot of respect for the common-sense approach of an investment strategy based on dividends. There is a wonderful order and simplification in this long-term skill which tends to achieve profits by patience rather than clever short-term market moves which do not create income or build capital.''

—James L. Fraser, CFA, President,
Fraser Management Associates

Dividends Still Don't Lie

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To my late grandfather,
Elbert Nelson Dummitt,
my first teacher and mentor.

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Foreword

It is with a great deal of pleasure that I introduce Kelley Wright's new book about the dividend-yield approach to lifelong growth of capital and income in the stock market.

This investment concept first was published in 1966 in what then was a new investment advisory service, *Investment Quality Trends*. Forty-three years and three books later, the service is still helping investors master the stock market by investing in high quality, dividend paying, blue chip stocks. It helps them know when stocks are *undervalued*, when they can be bought, and *overvalued*, when they should be sold.

The importance of dividends in determining value in the stock market cannot be overstated. The main reason investors are willing to risk their capital in *anything* is to get a return on their investment. In the real estate market, that return is rent. In the money market, it is interest. And in the stock market, it is a cash dividend.

Folks who ignore the importance of dividends in making stock market selections are not investors. They are speculators. Speculators hope that the price of a stock will go up and reward them with profits. Investors know that stocks that pay dividends go up too. Meanwhile, they are getting a return on their capital. They believe the old adage: A bird in the hand is worth two in the bush.

The legendary Charles Dow has written, ''To know values is to know the meaning of the market. And values, when applied to stocks, are determined in the end by the dividend yield.''

It is undeniable that many stock market investors are attracted to companies that pay dividends. Unconsciously, investors have established profiles of value for each dividend-paying stock based on historic extremes of high and low dividend yield. Those extremes of yield provide profitable buying and selling areas. A stock is undervalued when the dividend yield is historically high. It is overvalued when the price rises and the yield become historically low.

Let us examine how and why dividends create value in the stock market.

When the price of a stock declines far enough to produce a high dividend yield, value-minded investors who seek income begin to buy. The further the price falls, the higher the yield becomes and the more investors are drawn to the stock. Eventually the stock becomes irresistibly undervalued, buyers outnumber sellers, the decline is reversed and the stock begins to rise. The higher the price rises, the lower the dividend yield becomes and fewer investors are attracted to the stock. Meanwhile, investors who purchased the stock at lower levels are inclined to sell and take their profits. Eventually the price becomes so high and the dividend yield is so low, sellers outnumber buyers and the price of the stock begins to decline. A declining trend generally continues until a high dividend yield is reached that again attracts investors who step in and reverse the trend. At undervalue, the price/yield cycle reestablishes itself and the journey from undervalue to overvalue starts all over again.

It should be noted that each dividend-paying stock etches its own individual profile of value. These profiles of high and low dividend yield are established over long periods of time. There is no one-size-fits-all. Some stocks are undervalued when the dividend yield is 4.0 percent. Some, when the yield is 5.0 percent. Some will decline to yield as much as 6.0 percent or even 7.0 percent before they are historically undervalued. Some growth stocks are undervalued when the dividend yield is as low as 2.0 percent or 3.0 percent. The yields at overvalue are similarly distinctive and individual. *Therefore each stock must be studied and evaluated according to its own unique profile of dividend yield, one that has been established over several investment cycles.*

Now, here is the best part. Every time a dividend is increased, the prices at undervalue and overvalue move higher to reflect the historically established high and low dividend yields. Therefore, a company that has a long history of consistent dividend increases is most desirable. It promises steady growth of capital as well as continuous growth of dividend income. Frequent dividend increases prolong the life of an investment by raising the price/yield targets at undervalue and overvalue.

Dividends are the most reliable measures of value in the stock market. Earnings are figures on a balance sheet that can be manipulated for income tax purposes. Earnings can be the product of a clever account's imagination. Who knows what secrets lie in the footnotes of an earnings report? Dividends, however, are *real* money. Once a dividend is paid, it is gone forever from the company. There can be no subterfuge about a cash dividend. It is either paid or it is not paid. When a dividend is declared, you *know* that the company is in the black. And when a company increases its dividend, you don't have to read a balance sheet to know that the company has made profitable progress. In short, dividends don't lie.

But nothing is perfect in the stock market. There is one problem with the dividend-yield approach. Sometimes an unusually high yield can send a signal that the dividend is in danger of being reduced. When a dividend is lowered, the prices at undervalue and overvalue also are lowered and a price that previously was undervalued no longer represents good value. Therefore, it is critical to make sure that the indicated dividend is adequately covered by earnings.

One way to provide a measure of safety is to confine investment selections to time-tested, high-quality, blue chip stocks with long histories of unbroken dividend payouts and attractive records of earnings and dividend growth. The companies should have reasonably low levels of debt. The stocks should have relatively low price/earnings ratios. Such stocks have been carefully researched and are listed in this book.

The dividend-yield approach to value in the stock market can be applied to any dividend-paying stock. However, it is most successful when it is applied to high quality, blue chip stocks. The companies reviewed in this book and listed in the *Investment Quality Trends* advisory service have long dividend histories and well-etched profiles of undervalue and overvalue. Most of them carry a *Standard & Poor's* Quality Rank of A+, A, or A−. They are, in fact, true blue chips.

On a personal note, I am very proud of this approach to finding value through the dividend yield. Since it was introduced in 1966, it has helped many investors achieve financial security. It has given investors a sensible method to grow their capital and income and provide for their retirement years. From 1966 to 2002, I was the editor and publisher of *Investment Quality Trends*.

Now I am retired and enjoying the fruits of my labor and investments. Kelley Wright is continuing to guide investors along the difficult road to financial success. After all these years, I am pleased to note that dividends *still* don't lie. Best wishes for your investment success.

Geraldine Weiss

Acknowledgments

Gloria Patri, et Filio, et Spiritui Sancto. Sicut erat in principio, et nunc, et semper, et in sæcula sæculorum, Amen.

All thanks to the Holy Trinity from whom I have been blessed with the gift of faith, the love and support of my beautiful wife Kathy, and our five incredible children: Trinity Faith, Keegan Patrick, Jillian Grace, Evan Michael, and Christian Blaise.

Although faith and family are sufficient to make any life fulfilling, I have also enjoyed a rich professional life. Without discounting the benefits of my monetary compensation, it is impossible to put a price tag on the affirmation one receives from providing the appropriate solution for a clients' dilemma, or a value on the life experience and wisdom gained along the way. When all these factors are considered, I am the recipient of an embarrassment of riches.

I realize that while employment, for many people, is a necessity of life; how we embrace that necessity can transform a mere job into a calling or vocation. If, as The Good Book reads, ''one must earn their daily bread from the sweat of their brow,'' where is it written the sweat of the brow must be ordinary, uninteresting, and without joy? Thankfully it seems no written edict exists except in the hearts and minds of those who have chosen that path. As for me, I can gratefully acknowledge that my road has been blessed. I have had the wise counsel of caring mentors. The practice of my craft has resulted in relationships with truly wonderful people who have shared their hopes, concerns, and dreams with me. Lastly, my journey has been a humbling experience, because these good people have trusted me to help them transform their hopes and dreams into reality.

I am indebted to my late grandfather, Elbert Nelson Dummitt, for preparing the soil, planting the seed, and keeping the garden fertile. His innate sense of value and common sense were lessons of

immeasurable worth; his love and patience were boundless. I miss him deeply.

I am also blessed with a good business partner and friend, Mr. Michael Minney. Mike is more than a wingman; he makes sure the i's get dotted, the t's get crossed and the nets are in place every time I run off a cliff before I know where I will land. You are my brother from another mother.

Last but certainly not least is my gratitude to the diva of dividends, the incomparable Geraldine Weiss. She broke the mold and shattered the glass ceiling, proving that Wall Street is no match for mom's common sense and experience. Thank you for your confidence in entrusting me with your baby, but more importantly for your friendship and wisdom. *Ad Majorem Dei Gloriam.*

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Introduction

"Life is the best teacher, boy." This was my grandfather's way of saying that the best education is experiential. I am confident he arrived at this knowledge honestly; I know that I did.

I know this to be true as the result of almost three decades of experience as both an advisor and private investor. Experience means you have lost money in the markets, survived, and learned how to invest better. Rest assured that I have a lot of experience.

In 1988, my mentor and predecessor Geraldine Weiss wrote the classic *Dividends Don't Lie.* That book detailed the dividend-value strategy behind *Investment Quality Trends,* the highly successful newsletter Geraldine founded and that I now have the privilege to edit. Twenty-two years hence, the investment world has changed dramatically because of computer technology and the Internet. Tremendous amounts of data and information can be gathered, sorted, and analyzed in a matter of minutes. What used to take weeks or months at a library can now be accomplished in an evening; all one needs is a computer and Internet access.

What hasn't changed is the success of the dividend-value strategy for producing consistent gains in the stock market. Despite the advent of new technologies and the ability of investors to access information on an unprecedented basis, our old-school technique of using the dividend yield to identify values in blue chip stocks still outperforms most investment methods on a risk-adjusted basis.

Forty-four years after its inception, *Investment Quality Trends* continues to focus on combining sound stock selection with a long-term orientation because, over time, the stock market rewards investors who recognize and appreciate good value. In fact, the two greatest assets an investor can have are a system to identify quality and the ability to recognize value.

Although the dividend-value strategy has always had its fair share of detractors, critics and criticism have grown exponentially since the mid 1990s and the advent of alternative investments and the evolution of investment theory. Although the vast majority of these advancements have proven to be abject failures, it is still fashionable in some circles to simply dismiss the dividend-value strategy as an offshoot of the buy-and-hold philosophy.

In the simplest of terms, buy-and-hold is making an investment with no intention of ever selling and expecting financial gains into perpetuity. If detractors of the dividend-value strategy had actually taken the time to objectively study its concepts, they would find a clearly defined selling discipline based on repetitive dividend yield patterns; just one of several critical dimensions that are clearly absent in the buy-and-hold philosophy. Putting this and other fallacies to rest is one of the primary purposes of writing *Dividends Still Don't Lie*.

We believe the twin pillars of quality and value provide an investment foundation that takes much of the risk and anxiety out of investing in the stock market. We further believe that protecting principal while realizing a tangible return on investment from dividends makes perfect common sense, yet both are routinely dismissed as archaic. To be sure, disagreements among market participants are a requisite element for a properly functioning market, however, disagreements can devolve to a degree of dismissive hubris that allows for the type of irrational exuberance that brought us the worst bear market since the Great Crash of 1929. Interestingly, the current bear market has validated that our thought to be archaic beliefs cannot only survive, but prosper, in virtually any investment climate.

Well into our fifth decade in publication, *Investment Quality Trends* remains relentless in the pursuit of identifying value in the stock market and in understanding the myriad factors that influence stock prices each day. While this is a fascinating quest, it is not easy, nor are we always right. Our track record of success has been consistently sufficient, however, to affirm we are on the right path.

Although advances in technology provide investors access to more data and information than at any point in history, human nature has remained relatively unchanged since the Garden of Eden. This is to say that having more data and information has not cured the human propensity for being easily seduced by myths and misinformation, which results in missed opportunities and valuable compounding time. Investing is a business and should be treated as such. If you want to gamble, go to Las Vegas. If you have issues that need to be worked out, get a therapist. If you want to be successful in the stock market, learn how to identify quality businesses that offer historic value and then make the most efficient use of your resources.

This book is a short read by design. The game plan outlined here is based on the fact that a stock's underlying value is in its dividends, not in its earnings or in its prospects for capital gains. More than four decades of research have shown that blue-chip companies, those with long records of consistent, competent performance, are far more predictable than are upstarts or less-established companies with erratic records of earnings and dividend payments. In short, the dividend-value strategy is a proven, commonsense approach that has ultimately led to long-term results.

Although the volume may be light, the content is heavy. With all due respect to the Nobel laureates in economics and finance, the sheepskin isn't required to be a successful investor. I would suggest that you would do better to mind a good dose of mom's common sense and a little discipline. If you feel like it's necessary to do some heavy mathematical and economic lifting to get your money's worth I can steer you in that direction, but you'll probably get confused and frustrated trying to implement some esoteric investment strategy you'll never understand. Don't be intimidated into thinking simplicity doesn't work.

Most investors don't lose money in the markets because they're stupid; they lose money because they haven't put in the time and do not understand risk. If you can learn to think through your actions before you take them, you are well on your way to reaching your financial goals.

Lastly, investing is as much about perception and perspective as it is methods and technique. If your gut reaction to an event or situation is that something isn't right, for gosh sakes pay attention to it! ''Opportunity,'' Geraldine says, ''is like a streetcar; another one will come along soon.''

Dividends Still Don't Lie

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